

AN INTERIM ANALYSIS AND
EVALUATION OF COMMODITY SINGLE MANAGER AGENCIES

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Washington, D. C.

May 1960

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CHAPTER I

INTRODUCTION

The determination of the military departments to manage their supply systems in a business-like manner in the period since 1947 has been characterized by a willingness to experiment -- to explore all avenues that might lead to more effective supply management. The principal problem of military supply management may be stated as follows: it is to appraise and control the cost without impairing the ability to supply, on time and in the required quantities. Its solution requires that the supply manager examine his operations continuously in terms of how good is the product or service, and how efficiently is it being done. The emphasis in the military has traditionally been placed on the effectiveness of supply operations rather than on the cost to supply -- to make material available when and where needed. Industry, on the other hand, is compelled to evaluate its management in terms of cost. The military emphasis on supplying consumer units, sometimes at a high cost, is, of course, a moral necessity. Failure to supply troops with needed weapons and equipment can result in disaster. In business the penalty for failure is bankruptcy, an undesirable end but far less extreme than defeat in combat.

Individuals responsible for managing a military supply system therefore tend to resist the imposition of a businessman's preoccupation with costs upon a system that is governed by considerations other than cost. Yet, these same individuals recognize that inefficiency and waste cannot be tolerated by a military service. Indeed, inefficiencies in military supply are of more concern to the nation than wasteful business practices, because the military's supply requirements represent such a large portion of the total national resources.

That it is possible to appraise and control the cost to supply without impairing the ability to supply is apparent. In general, the military departments have adapted or are adapting to their needs the controls, financial techniques, and points of view that have enabled successful businesses to operate efficiently. Some of the concepts that have been applied are: comprehensive commodity management using summary financial data, funding in accordance with decision responsibility, and financial property accounting. These are permanent and desirable features of military supply management. The degree of detail to which financial controls should be applied in a military organization is matter for continual review. Too much control can be as undesirable as too little. In this connection, studies are currently under way on the subject of further extension of stock funds and consumer funding. Moreover, tools like financial inventory accounting need to be sharpened, and supply managers need to become more sophisticated in the use of such data for management purposes if they are to aid significantly in the decision-making

process. While further extension is indicated in some areas, there is evidence to suggest that financial inventory accounting and reporting and other financial management techniques may need to be simplified in certain areas.

In the period since 1947, there has been much discussion of the desirability of integrating the common supply functions of the military departments and eliminating the duplications that necessarily exist when the military departments procure, stock, and issue all the items required for their own support. Criticism of these duplications by the Congress, the Hoover Commission, and the press has focused special attention on the common-use categories, such as food, textiles, petroleum, medical supplies, and similar commodities more or less common to the military services and the civilian economy. This pressure from outside the Department of Defense, to eliminate the duplications, is reflected in the thinking of the proponents of the so-called "Fourth Service of Supply." They would remove these common-use, civilian-type items from the military departments and place them under a separate civilian-managed administration. The same pressures brought about the passage of the "Act Establishing the Federal Cataloging and Standardization Programs" under which all military items were to be standardized to the maximum extent possible and assigned Federal Stock Numbers. The proponents of this Act apparently were of the impression, as indicated by hearings before and after passage of the Act, that identification of the duplications was tantamount to automatic elimination of them. Finally, the pressures from without produced counter-measures by the military departments and the Department of Defense, such as: the

Single Manager Program, which consolidated the common-use categories under single managers within the Department of Defense; the Single Department Procurement Program, which consolidated the purchase of certain common items; and the Interservice Supply Support Program, which sought to mitigate any duplications that might exist by providing for interchange of assets among the services to prevent concurrent buying and selling.

The scope and purpose of this paper is to analyze and evaluate the operations of the four Commodity Single Managers that were established three to four years ago -- the examination being limited to a narrow perspective of: current deficiencies, significant achievements, and savings to the Government. Finally, brief consideration will be given to Studies of the Armed Forces Supply Support Center which led to the recent assignment of two new Commodity Single Managers.

The time available for the preparation of this paper precludes a more comprehensive and detailed treatment of the subject matter. Consequently, only the most important aspects have been selected for discussion, and a sincere attempt has been made to present a brief unbiased analysis and evaluation. The opinions expressed herein are personal and in no way reflect the official opinions of any of the Services or the Department of Defense.

Chapter II opens the discussion with some of the background and high lights of the Single Manager for medical supplies.

CHAPTER II

THE MILITARY MEDICAL SUPPLY AGENCY

Historical Background. -- The procurement of medical supplies, prior to and during World War II, was concentrated in three military purchasing offices: one Navy office located in Brooklyn, N. Y. and two Army offices located in New York City and St. Louis, Mo. In 1945, following the recommendations of the Draper-Strauss Study, a concerted effort was initiated toward the development of a joint and coordinated procurement office.¹ As a result of this effort, the Army-Navy Medical Procurement Office was established in December 1945. This Office was jointly staffed with Army and Navy personnel and began an intensive mission towards joint procurement, development of common specifications, consolidation of inspection, and uniform industrial mobilization planning. In June 1949, the Army-Navy Medical Procurement Office was reorganized under a Tri-Partite Directorate and became known as the Armed Services Medical Procurement Agency, a centralized procurement activity for all medical supplies of the Armed Forces. Procurement, cataloging, and industrial mobilization planning, however, continued to be the primary functions and achievements

¹W. H. Draper and Lewis L. Strauss, Coordination of Procurement Between the War and Navy Departments, (Washington: February 1945).

of this unified Agency. Functions of inventory management, financial control, determination of requirements and distribution of material remained the responsibility of each individual service.²

The first Hoover Commission in 1949 recommended a complete unification of all civilian and military medical services of the Federal Government, including supply activities. Action was never taken to place this recommendation into effect. In 1955, the second Hoover Commission stated that, "coordinated procurement of medical supplies is an effective method" but criticized the lack of progress being made toward the development of integrated storage and distribution in the medical supply area.

In further implementation of a relatively new concept to promote increased economies in the utilization of manpower, material and services, the Department of Defense issued Directive 5160.16 on May 4, 1956 which designated the Secretary of the Navy as the Single Manager for Medical and Dental Material. On January 1, 1957, the Military Medical Supply Agency (MMSA) began operations as wholesale supply management of medical and dental material for the Armed Forces. MMSA is specifically charged with (1) providing the most effective and economical means of supplying medical material to the Armed Services and (2) eliminating duplication and overlapping of effort between and among the military services, recognizing that the primary mission is to effectively support the military effort of the country.³

²Department of Defense, Evaluation Report on the Military Medical Supply Agency, (Washington: December 1958), p. 5. Cited hereafter as DOD, Evaluation Report on the Military Medical Supply Agency, December 1958.

³U.S., Congress, House, Subcommittee of the Committee on Government Operation, Hearings, Investigation of Military Supply Management (Single Manager Agencies), 86th Cong., 1st Sess., 1959, p. 142. Cited hereafter as House Subcommittee on Government Operations, MSM(SMA) Hearings, 1959.

Organization. -- The Secretary of the Navy assigned management control of NMMA to the Chief, Bureau of Supplies and Accounts and specified that the Agency be headed by a Naval Supply Corps Officer as Executive Director. The Agency operates under the technical control of the Bureau of Medicine and Surgery, the latter receiving advice from the Armed Services Medical Material Coordination Committee which is composed of one representative from each of the three Surgeons General. The Office of Naval Material determines general policies concerning materials. Three Assistant Secretaries of Defense: Supply and Logistics, Health and Medical, and Comptroller, have various policy control interests.

The internal headquarters organization of NMMA is shown by Chart I on page 8 and consists of six major departments. Three of the departments, Purchase, Stock Control, and Technical, constitute the operating field. The remaining three departments, System Planning, Comptroller, and Administrative Services are concerned primarily with administration.⁴ The Department of Defense requires that the Agency be staffed with military personnel from all services. In addition, it specifies that "key military staff positions subordinate to the Executive Director shall be subject to rotation on a periodic basis among the military services as agreed to by the Single Manager and the Secretaries of the other military departments." These DOD requirements have been carried out in a manner consistent with good business and organizational practices, taking into consideration the specialties and

⁴Ibid., pp. 144-48.

NOTES

(1) GENERAL COUNSEL, ASSISTANT STAFF UNDER DIRECTION OF CHIEF OF GENERAL COUNSEL (MEMBER OF THE STAFF)

(2) INDUSTRIAL RELATIONS AND MAINTENANCE SERVICES PROVIDED BY MIL. SUPPLY, D.C.

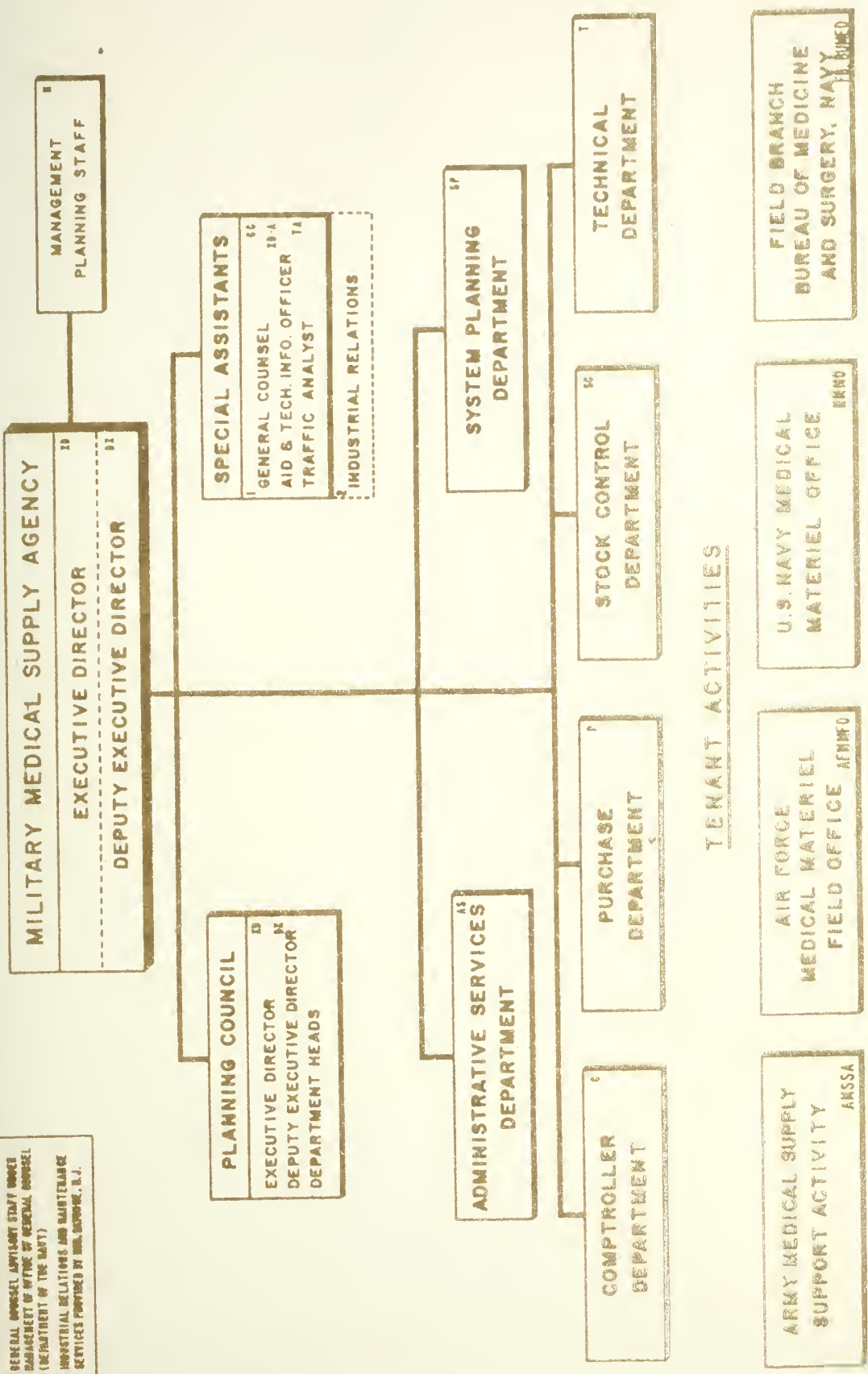


CHART I

backgrounds of the officers assigned to the Agency by the services. So far the caliber of assigned officers has been exceptionally high and MMSA has experienced no difficulty in assigning the Department Head billets regardless of parent services.⁵

Unresolved Problems. -- While MMSA is regarded as the "model" single manager agency and many unforeseen obstacles have been aptly resolved during three years of operation, the following problems currently exist and require resolution.

Deficiencies and Priorities During Mobilization. -- The shortage of medical material that would be required in the early phases of mobilization is a real concern to MMSA and the military services. Each military service furnishes MMSA a total requirement of materials for mobilization which includes a distinct category of specific materials. The specific mobilization material requirement represents the medical material needed by each of the military medical services for specific programs and projects which have been set up to support the strategic operation plans of the military departments. Upon establishment of MMSA, each military service contributed all medical material which it had earmarked for the programs and projects in the specific mobilization material requirements. These assets were capitalized into the Navy Stock Fund and an administrative procedure created an obligation for each department equal to its contribution. MMSA guaranteed the integrity of these assets and could use them only upon specific approval of the department concerned. After the initial capitalization, MMSA planned to eliminate deficiencies in

⁵DOD, Evaluation Report on the Military Medical Supply Agency, December 1958, p. 6.

specific mobilization material requirements through the use of unreserved on-hand assets and with new procurement as funds became available. Deficiencies still exist and it is now doubtful if any significant amount of unreserved assets will be generated. A considerable expenditure will be necessary to procure these deficient materials.

Still another deficiency exists in the general mobilization requirements which creates an even greater problem -- "Who gets how much of the insufficient assets?" This also includes the allocation of limited receipts of medical material from sources of procurement during the early phases of mobilization. Unless a system of priorities are established and approved, available material will be issued on a "first come-first served" basis without any regard to the operational requirements of the military services. It is understood that this problem has been referred to the Office of the Secretary of Defense for resolution and the Joint Chiefs of Staff are now developing a system of priorities and allocations for use during mobilization.⁶

Central Procurement and Stock Control of Low Dollar/Low Usage Items. -- MMSA is responsible for the central procurement and stock control of approximately 8,000 items. The total annual customer demand for many of these is low in both usage and value. About 1,500 items comprise 91% of the total customer demand. A recent study by one of the services showed that its largest retail activity had replenishable sales on only 2,350 MMSA stock items with the dollar value of 1,149 of these items being less

⁶Ibid., pp. 19-20.

than \$25 per item. These 1,149 low value items represented only 1% of the dollar value of total annual replenishable sales of MMBA stock items.⁷

This segmentation of inventory is one of the most fruitful areas for analysis and possible improvement. It has been given such descriptive titles as the "A - B - C," the "Hi Valu-Low Valu," or the "Diamonds and Popcorn" of inventory control. By any name, it suggests that the few items with the large dollar activity make up an attractive area for the reduction of inventory. Also, that the many items with small dollar activity make an equally attractive area for the reduction of paper work and control.⁸ A detailed analysis of MMBA inventory usage distribution is deemed appropriate with a view toward the assignment of additional stock items to local customer procurement. Consideration should necessarily be given as to whether stock items are mobilization/combat essential, or if they have certain characteristics which preclude customer procurement.

Officer Personnel Strength and Training. -- The MMBA officer personnel allowance has steadily decreased since activation of the agency. Some concern has been voiced over the reduction of military officers from 68 to 44; and, that such austerity may affect peacetime incentive for career officers and jeopardize expansion in time of war. Such opinions suggest that a special training program covering medical supply functions be established

⁷Ibid., pp. 27-28.

⁸W. Evert Welch, Corporate Consultant, Minneapolis-Honeywell Regulator Company, Talk before the Navy Graduate Comptrollership Class, George Washington University, Washington, D.C., February 25, 1960.

within NMMA to accomodate all of the military services. It is interesting to note here a reply prepared by Rear Admiral W. L. Knickerbocker, the Executive Director, NMMA, on May 9, 1959 to a questionnaire of the Military Operations Subcommittee:

Question: If your agency had to expand for emergency conditions now, could any quartermaster or supply corps officer of any of the services fit into the organization quickly and easily?

Reply: Subject to the individual background, experience and functional proficiency; Supply Corps Officers of the Navy and Marine Corps, Medical Service Corps Officers of the Army . . . Navy, and . . . Air Force could fit into the organization quickly and easily.⁹

Stock Fund Procedures Are Restricted. -- A final problem is associated with the manner in which the NMMA program is funded under the Navy Stock Fund. At present, the Navy Stock Fund consists of one separate sub-head for Single Manager Medical Material and another separate sub-head for all other Navy programs. The Secretary of the Navy has the authority to transfer funds between sub-heads when, in his discretion, the effective management of the over-all Navy programs require such action. Further, cash realized through the sale of medical material is ear-marked for return to the medical portion of the Navy Stock Fund, but is withheld pending further re-apportionment. What is needed is a return to the basic "revolving" concept of stock funding, affording NMMA the ability to re-invest cash realized through sales in such a manner as to best meet the planned needs of the Services, subject to over-all limitations of the Department of Defense. Navy draw-downs of single manager medical reserve stocks, necessitated by limitations on obligational and procurement authority,

⁹House Subcommittee on Government Operations, NMMA(SMA) Hearings, 1959, pp. 185-86.

have the ultimate effect of reducing the mobilization potential of all the services through the unilateral action of the single manager service. In short, what appears to be desirable is an authority for the total replacement of issues of single manager medical material. The Services' stock funds will not "revolve" properly in the manner envisioned in their initial conception until such time as these restrictions generated by the apportionment procedures are eliminated.¹⁰

Vulnerability of Stocks and Producers. -- The agency headquarters and the major commercial supplies are located in the New York area. In fact, New York, New Jersey, and Pennsylvania together account for about 72% of total military medical procurement. This concentration of medical suppliers in the Northeast and the lack of protected storage for medical stocks in depots pose an acute problem of vulnerability. Civil defense tests have repeatedly demonstrated that the bulk of the Nation's medical supply producers would be destroyed in the event of an enemy attack on this country and, without dispersed and protected storage, most of our existing stocks would also be lost. The Executive Director of MMMA has made recommendations for relocation of survival items of stocks into some kind of protective storage. Unfortunately, funds have just not been available for this kind of dispersal. Due to the critical importance of medical supplies in such an emergency, it has been suggested that MMMA should maintain a continuous and close relationship with the Office of Civil and Defense Mobilization, not only for the purpose of

¹⁰DOD, Evaluation Report on the Military Medical Supply Agency, December 1958, p. 70.

effecting measures to protect stored stocks, but also to assure the immediate availability of such stocks for civilian use in the event of emergency. Such a relationship between MMBA and the Office of Civil and Defense Mobilization does not exist at the present time.¹¹

Significant Accomplishments. -- A wide variety of tasks has been achieved or undertaken during the short period of existence of MMBA:

1. The wholesale distribution system has been streamlined and duplicate storage facilities have been eliminated.
2. Seven medical supply stock points have been disestablished.
3. Supply effectiveness is averaging 97% and the stock turnover rate has increased to about 4.9.
4. A considerable reduction in personnel requirements.
5. A decrease in storage space in the amount of 764,000 square feet.
6. Practically all crosshauling has been eliminated.
7. A new catalog of medical material, designed for customer needs, has met with favorable response at all levels.
8. Good progress has been made in the standardization and item reduction program.
9. Industrial preparedness on X-ray, diagnostic, and treatment equipment were developed as well as plastic substitutes for critical material.
10. The catalog processing time for newly developed items has been reduced from 87 to 48 days.
11. Sixty-five Government inspectors for testing medical material have been trained.
12. A comprehensive instore quality control manual was prepared and distributed covering inspection and storage criteria for approximately 6,000 items.
13. Specifications have been prepared and submitted to prospective manufacturers for a proposed electronic data processing system.
14. And, procurement processing time has been reduced from 60 to 45 days.¹²

¹¹House Subcommittee on Government Operations, NSM(SMA) Hearings, 1959, pp. 156-57.

¹²Ibid., p. 184.

Estimated Annual Savings to the Government. -- Certain improvements in the efficiency of management and operations can be readily identified with a dollar value. For instance, WMA has caused a gross reduction of about 485 government personnel which is equivalent to an estimated saving of about \$2.2 million per year. There has also been the reduction of 764,000 square feet of storage space which accrues an annual saving of about \$390,000. There are, however, other areas of significant savings which cannot be tagged with any precise dollar value. Transportation is such an area, where the integrated distribution system has eliminated crosshauls. Another area, of lesser consequences, is in procurement where the processing time has been reduced. In addition to savings, one very important benefit is improved service to the customer. And although this type of benefit is real, it is impossible to price-it-out with a dollar value.

The following chapter will analyze and discuss the Agency responsible for the management of military clothing and textiles.

CHAPTER III

THE MILITARY CLOTHING AND TEXTILE SUPPLY AGENCY

Historical Background. -- Early in 1945, the Draper-Strauss Study reported potential savings in the clothing and textile area if the military services would initiate more effective procurement.¹ Shortly thereafter, an Army-Navy purchasing office was established in New York City to coordinate purchases of clothing and textiles. This coordination consisted largely of an exchange of information on market prices/conditions, and informal agreements to allocate the output of common clothing and textile items to satisfy the needs of both services for critically short items without disrupting the market.

The Munitions Board assigned procurement responsibility for certain textile fabrics to the Army in August 1950. Following objections by the Navy, with Army concurrence, the Munitions Board suspended the assignment except for canvas, duck, and webbing, in the fall of 1950. In June 1952, following criticisms by Congressional Committees and Investigative Groups, the Department of Defense established the Armed Services Textile and Apparel

¹Draper and Strauss, op. cit.

Procurement Agency (ASTAPA) as a joint agency of the three military departments, subject to the policy direction and control of the Munitions Board. The Department of Defense assigned management control of ASTAPA to the Department of the Army. Subsequently, the Navy complained before the Appropriations Committees that administrative costs for clothing and textiles would be doubled through the use of ASTAPA. Congress failed to provide any funds for ASTAPA in the 1953 Appropriation Act and the joint agency was disestablished in September 1953. The Army continued to procure for the Air Force and the Navy resumed self-procurement. Three depot systems for clothing and textiles continued to operate.²

On May 4, 1956, Department of Defense Directive 5160.15 assigned the Secretary of the Army as the Single Manager for Military Clothing and Textiles. The Military Clothing and Textile Supply Agency (MC&TSA) began operations on July 1, 1956 with a primary mission: to effectively and economically furnish wholesale supply of designated clothing and textile materials to all the military services.

Organization. -- The Secretary of the Army assigned management control of MC&TSA to the Quartermaster General of the Army. Intermediate channels of command include the Deputy Chief of Staff for Logistics and the Assistant Secretary of the Army (Logistics).³ The Commanding General, Philadelphia Quartermaster Depot became the Executive Director of MC&TSA in a dual capacity

²U.S., Congress, House, Committee on Government Operations, Military Supply Management (Single Manager Agencies), 86th Cong., 1st Sess., 1959, H. Rept. 674, Union Calender No. 277, p. 22.

³House Subcommittee on Government Operations, MSM(SMA) Hearings, 1959, pp. 130-131.

function which required special approval by the Deputy Secretary of Defense since policy directives state that the Executive Director will have no other duties.⁴

The internal headquarters organization of MC&TSA is shown by Chart II on page 19 and consists of three major divisions: requirements and distribution, purchasing, and inspection. The Philadelphia Quartermaster Depot furnishes extensive staff and service support to MC&TSA. Directives issued by the Department of Defense specify that key military staff positions subordinate to the Executive Director shall be rotated among the services on a periodic basis and, in addition, require that the Agency be staffed with military personnel from all the services.⁵

Unresolved Problems. -- MC&TSA has grappled with many difficult problems of interservice differences, faulty procurement practices, and questionable behavior in industry. Of the other Commodity Single Manager Agencies, not a one has faced such a number and variety of problems. MC&TSA has survived and overcome many stumblingblocks. The resolution of the following problems, however, will facilitate even greater accomplishments.

Redistribution and Credit for Local Excesses. -- Each individual service must determine whether local excesses are service-wide excesses. When redistribution is appropriate, the owning military service has the authority and responsibility to

⁴Department of Defense, Evaluation Report on the Military Clothing & Textile Supply Agency, (Washington: December 1958), p. 18.

⁵Department of Defense Directive 5160.12, Policies for Implementation of Single Manager Assignments, (Washington: January 31, 1956), p. 3.

ARMY CLOTHING & TEXTILE SUPPLY AGENCY 11 B 48247

ORGANIZATION CHART

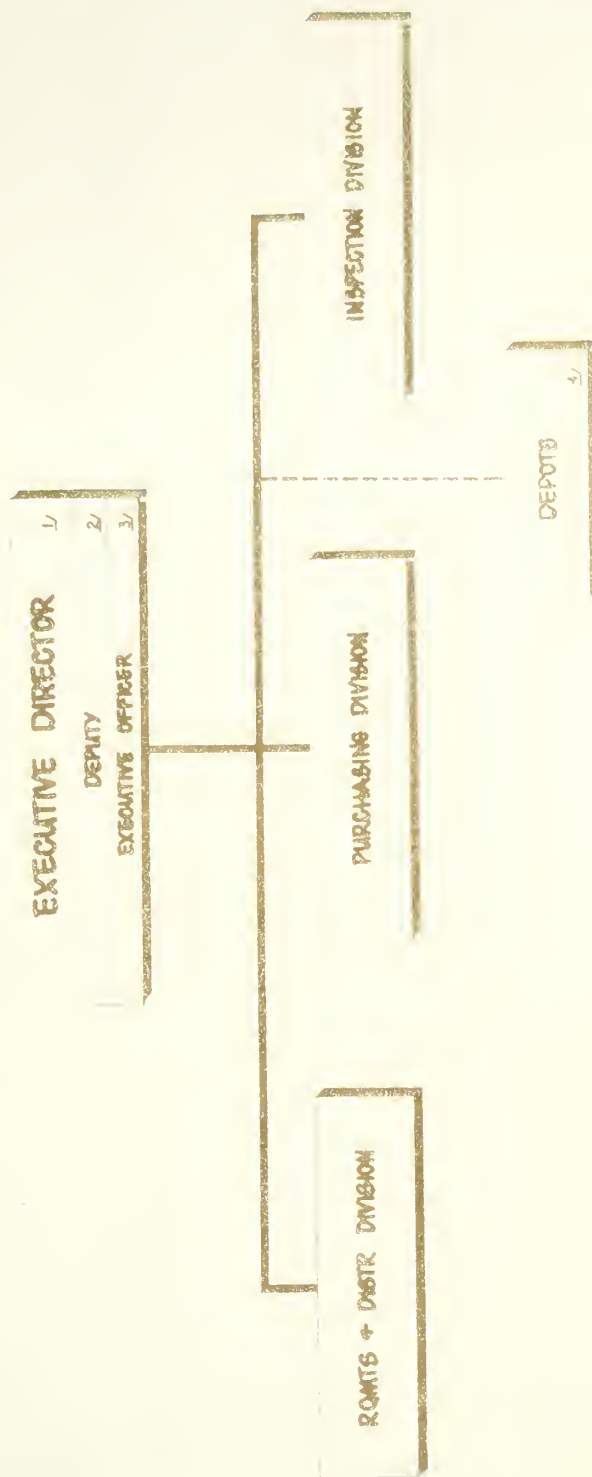


CHART II

- 1/ DUAL CAPACITY AS DEPOT COMMANDER, PQMD
- 2/ DUAL CAPACITY AS DEPUTY DEPOT COMMANDER, PQMD
- 3/ DUAL CAPACITY AS EXECUTIVE OFFICER, PQMD
- 4/ DIRECT CONTACT ON C.R.T.M. MATTERS

perform the operation only within certain geographical areas in the Continental U.S.A. Should redistribution beyond a geographical area be desirable, the owning military service must first obtain specific authority from MC&TSA. This restriction is imposed to prevent "joyriding" of supplies from one end of the country to the other. These duties and responsibilities cause each military service to establish central points of control for the redistribution of local excesses at the retail level.

A further complication to the problem is that the owning military service may not receive any stock fund credit upon return of excess material from the retail level to the wholesale level. Budgetary criteria of the Bureau of the Budget and the Department of Defense permit MC&TSA to grant monetary credit for the return of material only if it appears on a "need to buy" list. This restrictive list consists of items of material that MC&TSA plans to buy during the current fiscal period. Consequently, large quantities of new and usable clothing and textile items are sitting on the shelves of many military bases because MC&TSA cannot grant any monetary credit for the return of items that are not in immediate demand. Some military bases actually exceed their capability of storage because they are reluctant to turn in excess items of material without any credit when the very same items may be needed in succeeding fiscal years and thus require the use of badly needed funds. Such redistribution and credit policies contrast sharply with all acceptable principles of good business management and will be resolved only upon MC&TSA performing the redistribution on a single manager basis and granting monetary credit for all excess material deemed appropriate for retention.⁶

⁶Department of Defense, Evaluation Report on Military Clothing & Textile Supply Agency, (Washington:December 1958), pp. 104-05.

Channels of Communication. -- It was noted previously under organization that three layers of staff and command exist between the Single Manager and the Executive Director of MC&TSA. Communications between the Department of Defense and MC&TSA are therefore filtered as they pass up and down through these levels of command, causing delays and distortion in the execution of policies and directives. For example, there is evidence of distorted guidance in development of retention criteria and in amplification of Armed Services Procurement Regulations. A perennial burden and peril is encountered when MC&TSA submits a budget that must undergo an additional "triple review." It appears that Army communications of administration and supply need to be separated from single manager communications with the latter utilizing more direct channels between the Department of Defense and MC&TSA. This would not preclude intermediate levels of command from originating timely communications that are really essential for interpretation of implementation.⁷

Standardization and Priorities. -- Customers, in submitting requisitions for supplies, must indicate the date that such material is required at the ultimate destination. Studies reveal that different customers use various methods to determine the required date for supplies. Thus, it is impossible to obtain a truly accurate analysis or measurement of the shipping agency's effectiveness in meeting required dates. Standardized regulations should be published so that all customers will have a uniform basis from which to classify requisitions as emergency or routine and from

⁷Ibid., p. 100.

which to determine realistic required dates. The problem of priorities in allocating limited material resources in peacetime and emergency conditions exist in a manner similar to that noted under the Medical Supply Agency. Until priorities are established by the Department of Defense and the Joint Chiefs of Staff, material will be issued on a "first come-first served" basis.⁸

Unilateral Markups to All Services' Budget. -- Under current budgeting procedures, MC&TSA submits a budget that includes programmed requirements of all the military services: Army, Navy, Air Force, and Marine Corps. The budget must undergo review by several layers of intermediate commands of the Army before reaching the Department of Defense. The other three military services are not represented at these unilateral reviews, even though cuts or revisions at this level may vitally affect their programmed operations. The budget and funding program that is finally approved may vary greatly, and often does, from the original requirements developed by MC&TSA. For example, MC&TSA's budget for fiscal year 1960 was subjected to two reviews and cuts before reaching the Department of Defense where it received a third review and cut.⁹ This unilateral markup of a quadrilateral budget is a serious weakness that affects all Single Manager Agencies to some extent. Participants from all echelons should study this problem carefully to arrive at an intelligent and manageable solution.

⁸Ibid., pp. 102-03.

⁹Ibid., p. 106.

Significant Accomplishments and Savings. -- MC&TSA has successfully weathered a difficult period of forming and developing its organization and procedures to handle a diverse group of inherited problems. Achievements that have been accomplished or undertaken during this transition are:

1. A consolidation of assets which permits higher utilization of stocks on hand with a corresponding reduction of inventories has resulted in savings of approximately \$22 million to date. For example, purchases of only \$166.5 million were projected to meet estimated sales of \$333.5 million during fiscal year 1959.

2. A screening of excesses against requirements eliminates concurrent buying and selling of identical items of supplies.

3. The number of inspection and testing facilities have been reduced from eleven to eight which produces an annual savings of \$1.5 million.

4. Storage space has been reduced by 3.8 million square feet which represents a 30% saving of space and an annual savings of about \$6.7 million.

5. A consolidation of distribution systems which practically eliminates crosshauls and backhauls. Although this area is not labeled with a dollar estimate of savings, no one denies that transportation provides the largest single area for savings.

6. The addition of 3,110 items to the common-use category has increased the number of items used by more than one service by 78%. Examples of savings in this area of standardization include \$3 million per year by the Air Force's use of the army work uniform and about \$1 million per year through adoption of a common dress shoe last for all the military services. It is

impractical to estimate over-all savings from standardization, but recent emphasis upon this area indicates that it provides a fertile field for future savings.

7. Processing time for requisitions has been reduced from 25 days to about 12 days, and lead time in procurement has dropped from 93 days to an average of 56 days. In addition, the procurement delinquency rate has declined from 17% in fiscal year 1957 to 4% for fiscal year 1959.

8. A consolidation of stock numbers where identical items were carried under different stock numbers by two or more services has resulted in more efficient inventory control, storage, and handling.

9. A high speed communication transceiver system has been adapted which facilitates stock control and expedites follow-up action.

10. An IBM 305 RAMAC (Random Access Memory Accounting) was installed and placed in operation in 1959 to provide daily reports of the "management-by-exception" type.¹⁰

The next chapter is devoted to a discussion of the Military Subsistence Supply Agency, which has the responsibility for food supplies within the Department of Defense.

¹⁰House Subcommittee on Government Operations, MSM(SMA) Hearings, 1959, pp. 135-37.

CHAPTER IV

THE MILITARY SUBSISTENCE SUPPLY AGENCY

Historical Background. -- Centralized procurement and streamlined distribution of subsistence items dates back to 1941 when the Army established the Quartermaster Market Center System to buy carlots of fresh fruits and vegetables. The system expanded and in 1943 began purchasing and storing perishables both for stateside and overseas use by the Army, Navy, and Marine Corps with the Navy administering the contracts. Beginning with the Korean crisis, full responsibility for wholesale procurement of both perishables and nonperishables was assigned to the Department of the Army.¹

In November 1955, the Secretary of Defense made the first Single Manager assignment to the Department of the Army for Subsistence. This constituted a new concept for integrated supply management. The initial assignment directive was modified substantially in May 1956 when additional assignments were about to be made for clothing and medical supplies. Valuable experience was gained and a new framework of policies evolved from this first six months of single manager operations. This modification made

¹Department of Defense, Evaluation Report on the Military Subsistence Supply Agency, (Washington: February 1959), p. 8.

it a personal assignment to the Secretary of the Army and established an operating agency, Military Subsistence Supply Agency (MSSA), with an Executive Director whose sole mission was to perform procurement, inventory control, wholesale distribution, and stock fund control of subsistence items for the military services.²

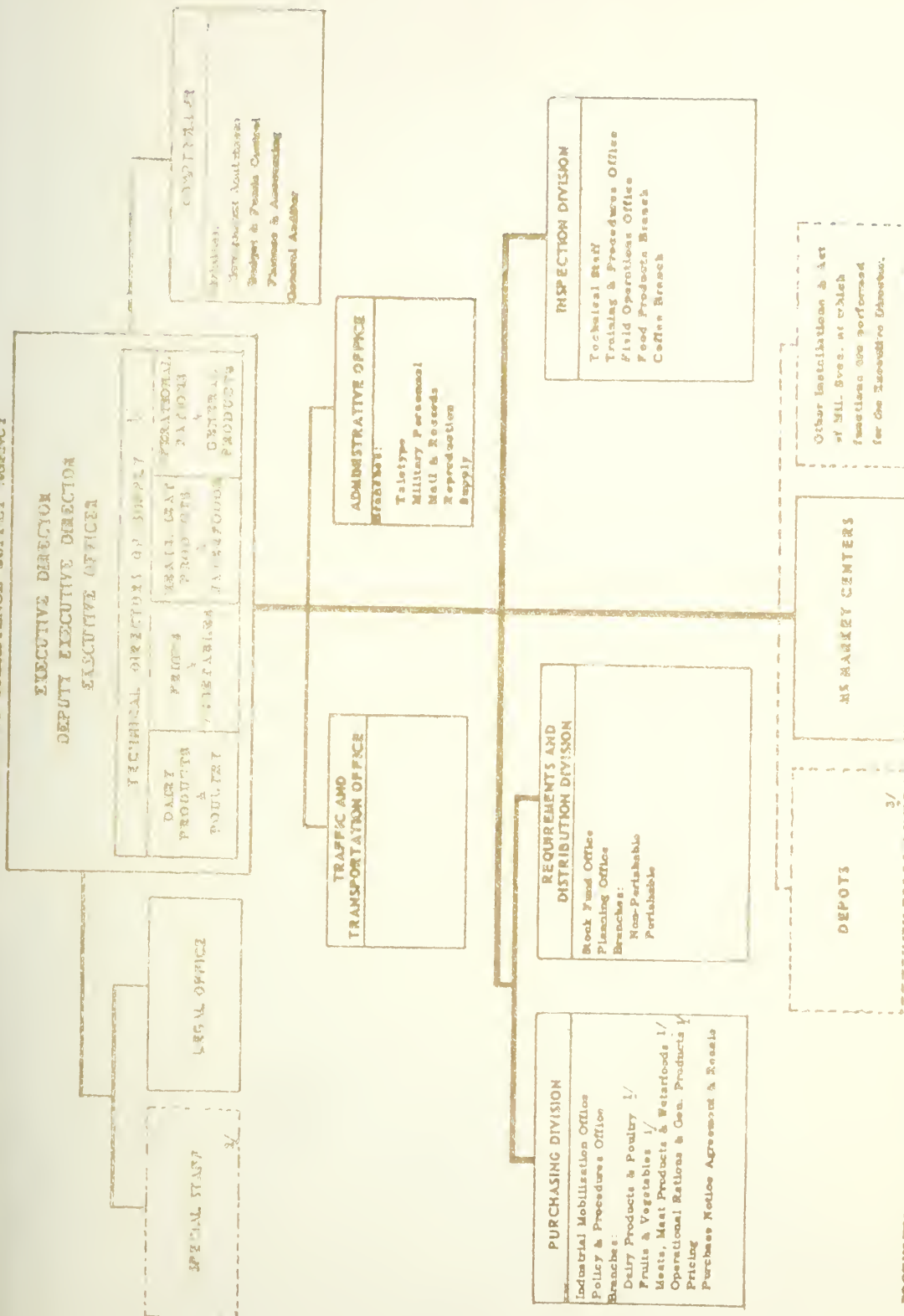
Organization. -- The Executive Director of MSSA reports to the Secretary of the Army with three levels of command and staff interposed: the Quartermaster General, the Deputy Chief of Staff for Logistics, and the Assistant Secretary of the Army (Logistics). MSSA Headquarters, located in Chicago, operates two almost separate supply systems: ten market centers for perishable items comprise one system and five depots for nonperishables constitute the other system. The Armed Services Procurement Act (10 U.S.C. 2304 (a) 8) specifically exempts subsistence items from procurement by formal advertising. As a result, MSSA employs negotiated procurement by two methods -- a notice of intent to purchase and sight buying of fresh fruits and vegetables.³

The internal headquarters organization of MSSA is shown by Chart III on page 27. Purchasing, requirements and distribution, and inspection make up the three principal operating divisions with routine staff support coming from the comptroller, administrative, and traffic divisions. A special organizational

²Department of Defense Directive 5160.11, Commodity Single Manager Assignment for Subsistence, (Washington: May 3, 1956).

³House Subcommittee on Government Operations, MSM(SMA) Hearings, 1959, pp. 67-81.

CHART III



FOOTNOTES:

- 1/ Dual Capacity as Branch Chief 75% and T.D.S. 25%
- 2/ Includes Intelligence Officer, Provost Marshal, Military Education Officer, Information Officer, Small Business Specialist and Safety Director.
- 3/ Performs assigned functions in connection with SSM Rations.

arrangement employs four Branch Chiefs during one-fourth of their time as Technical Directors of the four different categories of supplies.⁴

Criticisms and Problems. -- It was only logical for the area of food supplies to be the first for consideration in an integrated supply system for the military services. No other materials contain such a high degree of common use. Although customer reports on MSSA are, for the most part, favorable and the supply effectiveness for the agency has climbed to 99% on June 30, 1959, the following points require consideration if further efficiency and higher customer satisfaction is to be achieved.

Command Control. -- The Office of the Secretary of Defense should withdraw from a role of detailed supervision and assume a role of review and monitoring. In addition, other echelons of command maintain such meticulous supervision and control that the Executive Director must submit proposed actions to costly and duplicated levels of review. Based upon the performance of MSSA, it appears appropriate to adopt management by exception with pyramidal reports providing essential information to higher echelons of command. Department of Defense Directives should clearly spell out that only basic policy changes or matters of significant impact require the approval of the Office of the Secretary of Defense. Operational controls over the Executive Director should be minimized. Since subsistence is a specialized

⁴Department of Defense, Evaluation Report on the Military Subsistence Supply Agency, (Washington: February 1959), p. 12.

type of commodity and involves less than 1,900 line items, a delegation of maximum authority will not necessarily establish a precedent that would require application to other single manager agencies.⁵

Administrative Support. -- Criticisms have been made that MSSA is unable to obtain administrative support of its field activities from adjacent military installations. For example, the Military Subsistence Market Center at Columbia, South Carolina is currently provided administrative support by the General Depot in Atlanta, Georgia, even though a military installation, Fort Jackson, exists in the immediate area of Columbia, South Carolina. The following paragraph is worth noting in this connection:

The Secretary of each military department shall be responsible for the administrative support of all installations and activities under his jurisdiction, including administrative support required to perform those functions assigned by the Single Manager. Military departments will furnish to the Single Manager complete data regarding administrative support costs incurred on the basis of missions assigned by the Single Manager. Such data shall be compiled on a comparable basis and, as soon as practicable, derived from a uniform expense classification and related to budget and apportionment requests.⁶ (*Italics mine.*)

The author is prone to interpret the above as authority for the Single Manager to assign the function of administrative support for MSSA activities to the closest military installation capable of providing this service. It then becomes the responsibility of the Secretary of the appropriate military department to provide this assigned function.

⁵Ibid., pp. 84-85.

⁶Department of Defense Directive 5160.11, Commodity Single Manager Assignment for Subsistence, (Washington: May 3, 1956), p. 4.

Disposition and Redistribution of Local Excesses. -- Joint Military Service Regulations, which implemented the Single Manager Assignment for Subsistence, prescribe the procedures for the disposition of excess nonperishable stocks occurring at the retail level. The owning military service must redistribute them among its own retail activities within a prescribed geographical area. Should this be impossible, the owning military service then reports the excess to MSSA who issues redistribution instructions based upon the knowledge of the over-all needs of all the services within each geographical area. As an example, suppose the Navy developed an excess stock of one item at Lincoln, Nebraska and the nearest naval activity, in the area, that needs this item is in Chicago, Illinois; the Navy would then ship the excess of this item from Lincoln to Chicago. On the other hand, if the initial report of the excess item had gone direct to MSSA, it might very well have been possible to redistribute the excess of this item direct to an Air Force activity in Omaha, Nebraska with a considerable saving to the government in the cost of transportation. It is understood that the Military Services have agreed to a proposed change in regulations to provide for this latter, more direct method, for the disposition of excess retail stock items.⁷

Procurement by Commissaries. -- The financial arrangements and procurement practices of commissaries vary among the military services. Navy commissaries operate completely separate from troop-issue subsistence items, both organizationally and financially. And, with minor exceptions, the Navy stores do not

⁷Department of Defense, Evaluation Report on the Military Subsistence Supply Agency, (Washington: February 1959), p. 86.

purchase subsistence items from MSSA. The Navy adopted this practice primarily to minimize protests of local competitors who are quick to relay feelings of this nature direct to their Congressional representation in Washington. Commissaries of the Army and Air Force finance their operations with a single stock-fund segment which also includes troop-issue subsistence. It is believed that these sales to commissaries comprise a substantial portion of the total MSSA distribution. Since separate records are now being kept, it will soon be possible to determine the exact volume of MSSA sales to commissaries. Many feel that commissaries should have a maximum freedom of choice in sources of supply with MSSA being considered as just another source which must compete with the prices of commercial outlets. Since no uniform policy exists, it has been suggested that a joint military group undertake a study and make recommendations to clarify the relationship between MSSA and the Military Commissaries with the ultimate goal being a definitive and binding arrangement for subsistence supplies between the two.⁸

Centralization of Requirements Computation. -- Directives provide for each military service to compute its retail item requirements by geographical distribution areas. MSSA is responsible to combine these requirements and furnish the supplies necessary to fulfill these forecasts. In actual practice, the services compute only their nonperishable requirements and MSSA provides perishable items based on a centrally prepared forecast. Perishable items constitute about two-thirds of total sales. To some

⁸Ibid., p. 87.

extent, substitution and the ready availability of perishables make this practice possible. It has been proposed that MSSA also compute retail requirements for nonperishable items as soon as accuracy and timeliness of demand data has improved.⁹

Consolidation of Inventory Control Centers. -- The Army central inventory control point is located near MSSA headquarters in Chicago, whereas, the Navy's is at Washington, D. C., and the Air Force's is at Marietta, Pennsylvania. Criticism of this arrangement suggests that a consolidation of these offices at MSSA headquarters would achieve savings in overhead, communications, and personnel, plus contributing to more uniform operations by the three military departments.¹⁰ In commenting on the statement that all three centers should be located together, General Hugh Mackintosh, Executive Director of MSSA, said: "I think it would be desirable. However, I have an appreciation that they also have liaison in a different direction that might be less desirable if they were in Chicago."¹¹

Significant Accomplishments and Savings. -- The implementation of the single manager assignment for subsistence was less dramatic than other single manager assignments because of the fewer changes required in previous operating procedures. The creation of MSSA merely provided additional supply management tools to an already efficient Quartermaster Market Center system. These

⁹Ibid., pp. 88-89.

¹⁰U.S., Congress, House, Committee on Government Operations, Military Supply Management (Single Manager Agencies), 86th Cong., 1st Sess., 1959, H. Rept. 674, Union Calendar No. 277, p. 28.

¹¹House Subcommittee on Government Operations, MSA (BMA) Hearings, 1959, p. 61.

additional tools have enabled MSSA to streamline functions and eliminate duplication as evidenced by the following specific achievements:¹²

1. Annual savings in the procurement of perishables are estimated to be \$1,577,000. These savings accrue from: an increase in carlot procurement through consolidation of the Services' requirements, an initiation of mixed carlot shipments from stock centers in lieu of smaller direct vendor shipments, an improvement of satellization patterns, and an activation of additional distribution points. Lower unit costs and cheaper transportation rates comprise the majority of the savings.

2. The use of the Navy cold storage plant at Cheatham Annex Depot for support of European forces saves about \$723,000 annually.

3. Direct shipment by vendor to ports for nonperishable items destined for overseas is estimated to save \$175,000 per annum through by-passing the Depot system.

4. An over-all annual savings of about \$317,000 provided in equal proportions by the three categories of: consolidation of brand name nonperishables, shell egg procurement, and standardization of export packing materials and containers.

5. MSSA alleges a reduction in personnel allowances from 1,876 to 1,687 as of June 30, 1959 which is a gross saving of 189 personnel, the equivalent of an estimated annual savings of \$1,039,000. An analysis of actual personnel employed shows a steady increase from 1,473 on June 30, 1956 to a high of 1,742 on June 30, 1958. A decrease to 1,683 on June 30, 1959 produced a

¹²Ibid., pp. 50-79.

net reduction of 59 employed personnel, but only 4 less than the then authorized allowance. It appears that either the initial allowance of 1,876 billets was considerably overstaffed, or the workload was materially decreased since 134 billets (difference between 1,876 and peak employment of 1,742) were never occupied. On the basis of this analysis, it is rather difficult to pinpoint precise benefits from reduced personnel allowances. It is conceded that the reduction of 59 employed personnel is equal to about \$325,000 per annum.

6. There are other significant accomplishments which result in substantial reductions in overhead costs and in improved service to customers. It is impossible to evaluate these achievements in terms of monetary gains. Illustrations in this area are:

a. Values of inventories declined 10% while the inventory turnover rate for perishables increased from 8:1 to better than 13:1.¹³

b. Refined procurement practices through expanded use of the Automatic Data Processing Center in Richmond, Virginia.

c. Great progress in standardization and common use of items. Upon establishment of MSSA only 450 items were common to all services. On June 30, 1959, common use items had increased to 798. An additional 675 items were being used by either two or three services. Only 398 items remained in the catalog for use by just one service.¹⁴

The last of the fully implemented -- with some reservations -- commodity single managers will be covered in the following chapter. This is the Agency responsible for petroleum.

¹³Department of Defense, Evaluation Report on the Military Subsistence Supply Agency, (Washington: February 1959), pp. 24-26.

¹⁴Ibid., pp. 65-66.

CHAPTER V

THE MILITARY PETROLEUM SUPPLY AGENCY

Historical Background. -- Shortly after the beginning of World War II, the Army-Navy Petroleum Board was established to coordinate the source and distribution of petroleum to U. S. and Allied Forces. This Board was reorganized in 1948 as the Armed Services Petroleum Board, which was renamed the Munitions Board Petroleum Committee in 1949. The Office of the Assistant Secretary of Defense (Supply and Logistics) absorbed this latter committee in 1953 upon establishing the Petroleum Logistics Division under Reorganization Plan Number 6. Today the Petroleum Logistics Division is mainly concerned with policies, procedures, and mobilization planning.¹

Nothing was done to centralize the procurement of petroleum until 1945 when a Joint Army-Navy Petroleum Purchasing Agency was formed following the Draper-Strauss recommendations.² This brought the petroleum buyers together under one roof even though independent service procurement remained a normal practice. In

¹U.S., Congress, House, Committee on Government Operations, Military Supply Management (Single Manager Agencies), 86th Cong., 1st Sess., 1959, H. Rept. 674, Union Calender No. 277, pp. 28-29.

²Draper and Strauss, op. cit.

1948 this Joint Agency was reorganized into the Armed Services Petroleum Purchasing Agency (ASPPA) with a charter under the National Security Act to procure petroleum for the three military departments and to coordinate distribution. ASPPA was disestablished in 1956 upon the formation of the Military Petroleum Supply Agency (MPSA) by the Secretary of the Navy who had received the single manager assignment for petroleum.

Deviation from Policies and Organization. -- Department of Defense Directive 5160.18 of July 24, 1956, Single Manager Assignment for Petroleum, made exception to the normal concept of single manager to the extent that wholesale stock ownership and stock funding were specifically prohibited in the management control of petroleum products. This deviation from established policies was considered justified by the characteristics of petroleum and the exceptional conditions encountered in the supply and distribution of this commodity by the military departments.³ Initially, the proposed Department of Defense Directive contained instructions for MPSA to own all petroleum stock and to sell through the usual stock fund arrangements to the retail level of the services. A three-way split in service recommendations developed and a decision was made to adopt the Air Force position. Petroleum was considered too vital a commodity to be placed more fully under single management. Consequently, the services retain ownership of their wholesale stocks of petroleum products.

The Executive Director of MPSA reports to the Secretary of the Navy through the Chief, Bureau of Supplies and Accounts

³Department of Defense Directive 5160.12, Policies for Implementation of Single Manager Agencies, (Washington: January 31, 1956).

who exercises control over MP&SA in management, fiscal and administrative matters. The military chain-of-command from MP&SA to the Secretary of the Navy is via the Commandant, Potomac River Naval Command and the Chief of Naval Operation. The headquarters of MP&SA is located in Washington, D. C. Of the 21 military officers assigned to MP&SA, 5 are Army, 6 are Air Force, and 10 are Navy.

The internal organization and functions are shown by Chart IV on page 38. Six major divisions: system planning, management planning and administrative, service contracts, distribution, technical, and purchasing constitute the operating organization. Procurement is the most important function of MP&SA since the Agency has no responsibility for determining net requirements, stock funding, wholesale stock ownership, and inventory control. MP&SA is limited to a "coordinating" function in inventory management and distribution.

Criticisms and Problems. -- During the three years of MP&SA's operation, Department of Defense experts have studied the Agency on three different occasions. While it is a tribute to the Executive Director that the Agency has survived these studies, there are serious problems yet to be solved in the petroleum supply field. Perhaps the underlying cause of most of these problems is the reluctance of many military commanders to relinquish positive control over petroleum products. The feelings of these commanders may be appreciated as indicated by the opening remarks of Rear Admiral O. P. Lattu, Executive Director of MP&SA, before the House Subcommittee on Government Operations on May 26, 1959:

Basic to an appreciation of the complexity of military petroleum logistics is an understanding of the unique nature of petroleum. Oil must be afforded

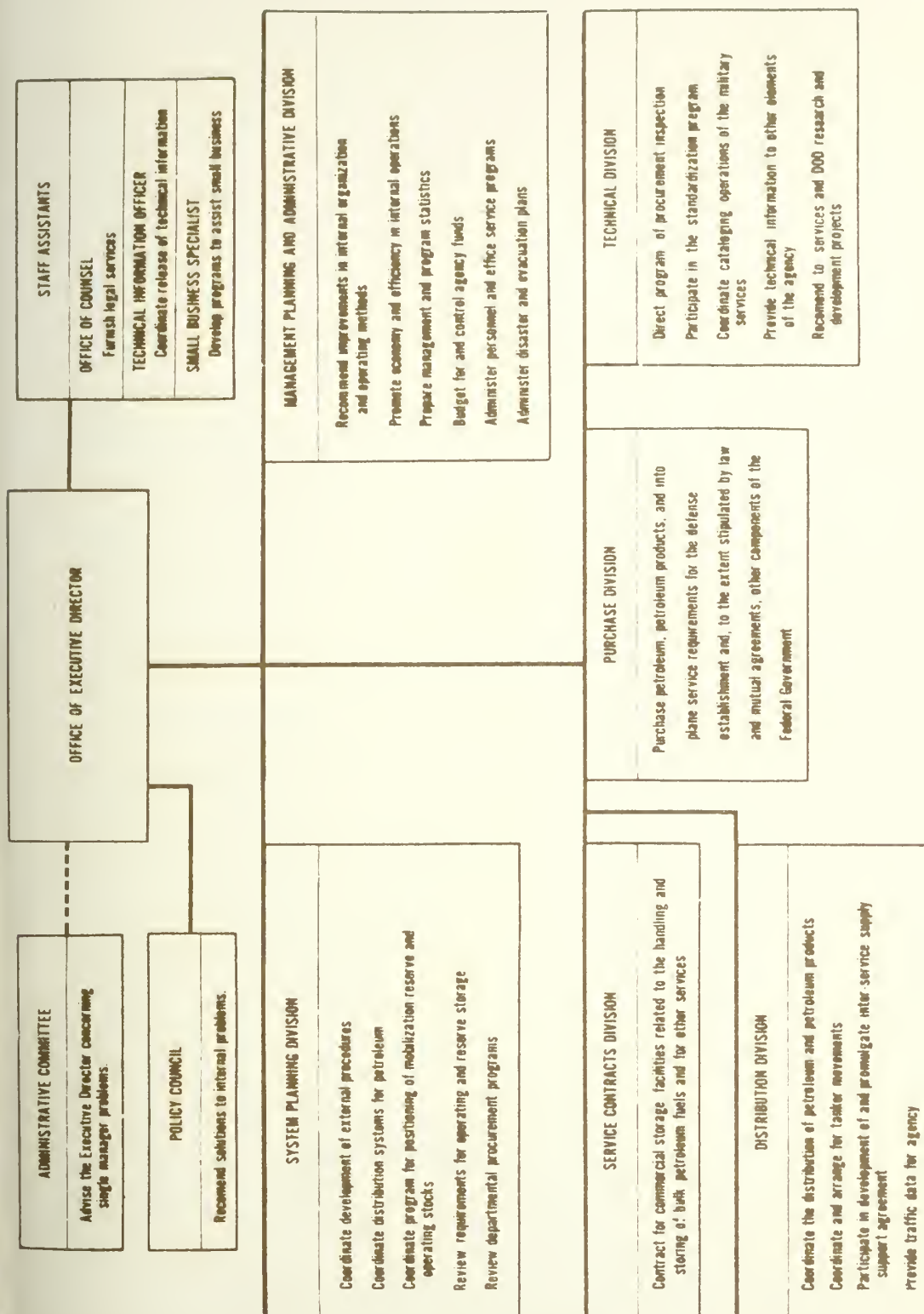


CHART IV

special treatment. It is highly technical and potentially dangerous material. It is necessary that personnel assigned the responsibility for its care be specially trained. Oil is an indispensable commodity which is needed in tremendous quantities. Our military commanders may have all the men, planes, ships, tanks and missiles necessary to accomplish their missions, but they will certainly fail if they do not have the petroleum to move and sustain the attack. In short, the sobering truth is that petroleum availability can make or break any military operation.⁴

Unaccomplished Assignments. -- MPSA has implemented assigned responsibilities in varying degrees. Three assignments which have not been fully implemented or where interpretation differs between MPSA and the military departments that should be accomplished are:⁵

1. Receive and review petroleum mobilization requirements for all the military services.
2. Periodically review and make recommendations on bulk storage requirements.
3. Coordinate a program for the positioning of mobilization reserves and operating stocks to minimize vulnerability in the event of enemy attack.

Duplications and Overlapping. -- Although much has been accomplished to eliminate duplicating and overlapping functions, situations do exist in the continental U. S. and in some overseas areas that are not under the close control of a unified commander which continue to be a problem.

1. The Armed Forces Supply Support Center (AFSSC) has undertaken functions which overlap several responsibilities

⁴House Subcommittee on Government Operations, MSM(SMA) Hearings, 1959, p. 188.

⁵Department of Defense, Evaluation Report on the Military Petroleum Supply Agency, (Washington: December 1958), pp. 29-30.

assigned to MPBA in the area of interservice supply support. Duplicated actions and reports have been thrust upon field activities. A simple solution has been suggested whereby MPSC will utilize MPBA as the channel of communications for petroleum matters.⁶

2. Naval shipment of packaged petroleum products between depots and stations have occurred when direct vendor-to-consumer shipments would have been shorter and eliminated backhauls. MPBA and the Services should undertake to establish regional coordination of the separate military services' depots in the distribution of packaged petroleum products to prevent duplication and overlapping.⁷

Lack of Coordination. -- MPBA has absolute authority in only one function -- procurement. All other functions have necessarily been subordinated to a role of coordination. The following two specific problems illustrate the need for additional authority to coordinate functions that will produce greater savings and efficiency:

1. Current procedures permit the Air Force to arrange its own barge and coastal tanker shipments of bulk petroleum without prior referral to MPBA or the Military Traffic Management Agency. Action should be taken to prevent instances of split-tanker shipments and crosshauling.⁸

2. A problem in communications exists because the inventory control points of the separate military services are not

⁶Ibid., pp. 11-13.

⁷Ibid., pp. 24-25.

⁸Ibid., p. 30.

located together at MPSA Headquarters. The Army and the Navy control points are in Washington, D. C. They are not, however, under the same roof. The Air Force control point is located at Middletown, Pennsylvania.⁹ Rear Admiral Lattu stated before the House Subcommittee on Government Operations in May 1959 in reply to a question concerning communication problems affecting coordination:

I will put it the other way. In an emergency, we have to coordinate very, very closely; hourly. For this, we have a closed circuit teletype. During the Mideast emergency we had a meeting with the services every other day in my office. If the inventory managers were under the same roof, as it has been recommended, that would be an improvement.

I cannot get the space in my own agency to satisfy my present requirements. They tell me that when the State Department Building is finished a year from now that I can have more space. And the Army has indicated that they would move in under the same roof and so would the Navy.¹⁰

This will accomplish only a minor improvement unless the Air Force, which is by far the greatest user of petroleum products, shifts its location from Pennsylvania to Washington, D. C.

Personnel Staffing. -- MPSA has experienced some difficulty in obtaining qualified personnel. The substantial difference in wages between industry and Government for similar positions adversely affects the recruitment of trained personnel from civilian sources. It therefore follows that if the Agency has to expand for emergency conditions, only certain quartermaster or supply officers of the military services could fit into the organization quickly and easily. Petroleum training and experience in civilian

⁹House Subcommittee on Government Operations, MMH(SMA) Hearings, 1959, p. 193.

¹⁰Ibid., p. 226.

industry or in the military service would be a prerequisite for certain key positions.¹¹

Lack of Authority and Accomplishments. -- The present petroleum supply system has worked well in peace and in limited emergencies. The system provides high supply effectiveness, high stock turnover, and low operating inventories. Crosshauls and backhauls have been reduced considerably. The weakness in the present system is its dependence on the degree and success of coordination attained between MPSA and the military services. In comparison to other single manager assignments, petroleum has no single individual who can be really considered the "commodity manager." The Assistant Secretary of Defense (Supply and Logistics) has pointed out that commendable progress has been made, but, weaknesses continue to exist in the fields of requirements review, pricing, local purchase policy, and single funding. Yet, the Material Secretaries of the three military departments are satisfied with the current progress of MPSA to the extent that they do not desire the petroleum single manager to receive additional authority and responsibility corresponding to the other commodity single managers.¹²

Reduced Cost of Petroleum. -- MPSA currently purchases over \$1 billion worth of petroleum products annually. Centralizing this volume of procurement in one Agency helps the Government to buy at the lowest possible cost. Products are generally purchased at prices below the commercial market level. For every price

¹¹Ibid., p. 209.

¹²Department of Defense, Evaluation Report on the Military Petroleum Supply Agency, (Washington: December 1958), pp. 33-35.

advantage of one mill per gallon, approximately \$12 million is saved annually. While no detailed records of savings are available, it is believed that millions of dollars in savings have accrued.¹³

Benefits and Other Savings. -- The Agency has provided the military services with greater flexibility, particularly in the overseas areas. MPSA has been able to coordinate worldwide shipments by tankers in such a manner as to reduce backhauls and cross-hauls, achieving more efficient and economical operations. Thousands of dollars are saved when a single uneconomical movement of product is avoided and the Agency, with the cooperation of the Military Sea Transportation Service, has avoided such movements many times.¹⁴

Standardization and Line Item Reduction. -- When MPSA was created, the catalog contained 1,858 line items and 22 new items have since been introduced. At present, there are 1,256 line items in the petroleum field. This constitutes a reduction of 602 items, equivalent to about one-third.¹⁵

Chapter VI will discuss the Armed Forces Supply Support Center Studies which led to the recent establishment of two new commodity single manager agencies -- responsible for General Supplies and Industrial Supplies.

¹³House Subcommittee on Government Operations, MSM(SMA) Hearings, 1959, p. 211.

¹⁴Ibid.

¹⁵Ibid.

CHAPTER VI

ARMED FORCES SUPPLY SUPPORT CENTER STUDIES AND NEW COMMODITY AGENCIES

ARMED FORCES SUPPLY SUPPORT CENTER (AFSSC)

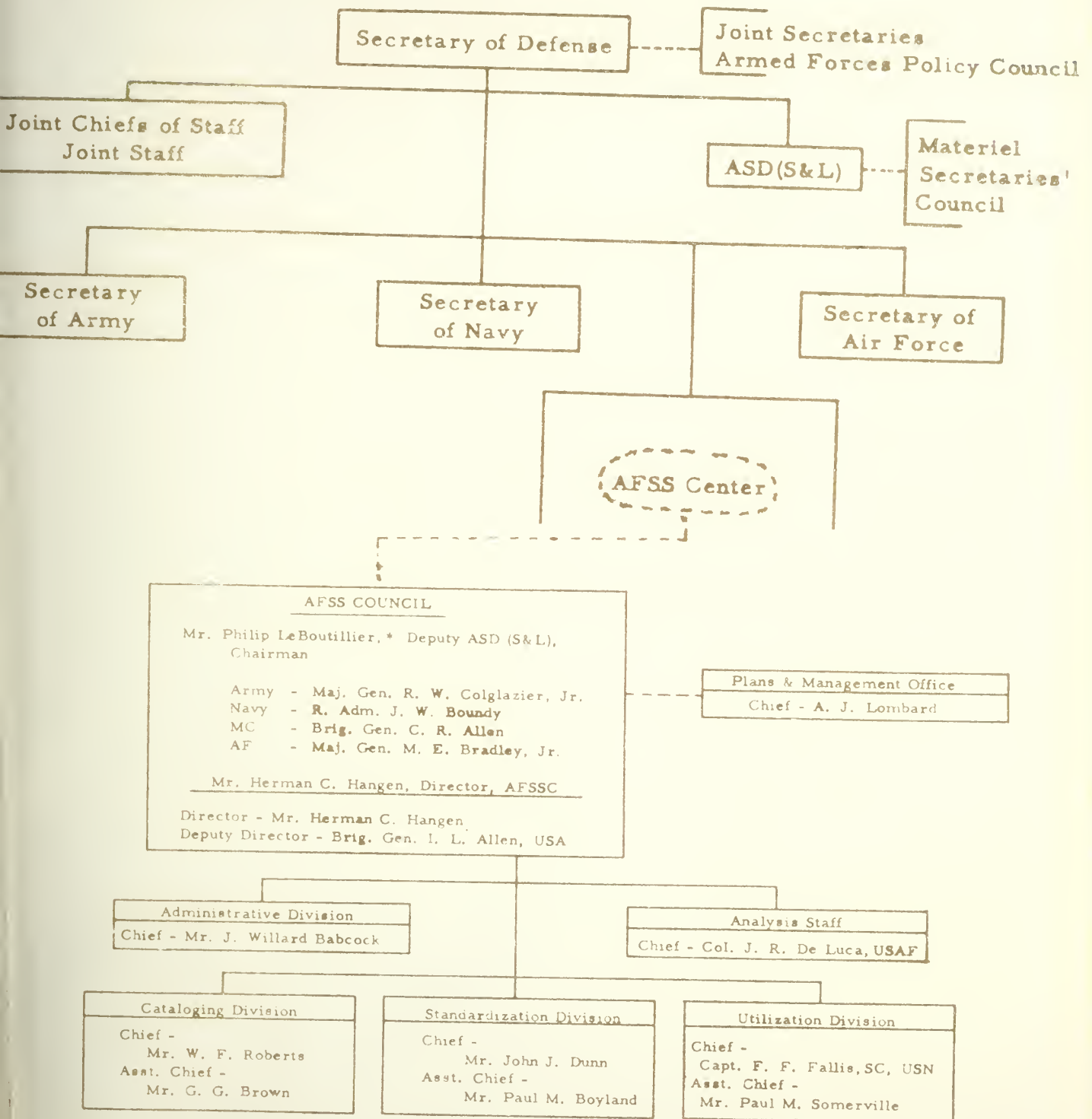
Background. -- On June 23, 1958, the Secretary of Defense established the AFSSC as a joint center of the military services. The relationships of the AFSSC within the Department of Defense and its organization is shown by Chart V on page 45. The purposes and objectives of the AFSSC are:

1. To provide the most effective and economical administration of certain common supply functions of the military services.
2. To promote and coordinate integrated supply management among the military services concerned with common material.
3. To develop means for the elimination of any undesirable inconsistency, duplication and overlapping among supply operations of the military services, and for the elimination of any unnecessary administrative procedures.¹

In addition to administering programs for cataloging, standardization, etc., the AFSSC is directed to make continuing studies and analyses of the operations of the military supply systems, paying particular attention to the commodity areas covered by Single Manager assignments.

¹Department of Defense Directive 5154.14, Establishment of the Armed Forces Supply Support Center, (Washington: June 23, 1958).

ARMED FORCES SUPPLY SUPPORT CENTER (AFSSC)



*To report about April 15, 1959

Revised April 6, 1959

CHART V

Study Project No. 59-2. -- In October 1958, the AFSSC was directed to study and make recommendations to provide for optimum management of general supplies within the Department of Defense. In its broadest connotation, the term "general supplies" is considered to include the following identifiable segments:

administrative/housekeeping equipment and supplies

hand tools

hardware and abrasives

construction equipment and supplies

automotive equipment and supplies

electrical/electronic equipment and supplies

other type general supplies

The commodity segments initially selected for study were administrative/housekeeping equipment and supplies, and hand tools. In October 1959, the Director of AFSSC submitted a report of findings, conclusions, and recommendations covering the "Management of General Supplies."

Findings. -- A quick scan of the following data, which is alleged to be on the conservative side, indicates that both commodity segments possess the criteria of dollar value and commonality for management by a single manager.²

| <u>All Military Services</u> | <u>Hand Tools</u> <u>(\$ in million)</u> | <u>Admin/Housekeeping</u> <u>(\$ in million)</u> |
|------------------------------|---|---|
| Inventory (12/31/58) | \$105.8 | \$243.6 |
| Sales (Fiscal Year 1959) | \$31.5 | \$111.2 |

²Director of Armed Forces Supply Support Center Memorandum, "Management of General Supplies," (Washington: October 13, 1959), Inclosure, pp. 4-7.

| <u>All Military Services</u> | <u>Hand Tools (\$ in million)</u> | <u>Admin/Housekeeping (\$ in million)</u> |
|---|---------------------------------------|---|
| Procurement (FY 1959) | \$25.3 | \$90.1 |
| Total number of items | 50,373 | 25,116 |
| Commonality (items used by two or more services) | 13,042 | 3,601 |
| Percentage of commonality | 25.9% | 14.3% |
| Percentage of combined commonality | 22% | |

The findings noted a preponderance of reasons that preclude utilization of the General Services Administration System for supply and management of these two commodity areas.³

Conclusions. -- Consolidated management of various general supply commodities is already in effect within each individual military service. Further consolidation could be accomplished across service lines with management improvement. Savings could be realized in the distribution system through a reduction in the cost of operating inventory control points and depots and through a reduction in transportation expenses. Similar economies could be realized through inventory investments by a reduction in over-all system stock levels, a prompt utilization of long supply and excess stocks, and a reduction in number of items.⁴

The AFSSC Study Project determined that material characteristics and management techniques for hardware and abrasives were closely similar to those of administrative/housekeeping supplies and hand tools. Even the degree of commonality - 20% - was comparable to the combined percentage of 22% noted above.

³Ibid., pp. 12-14.

⁴Ibid., pp. 15-17.

AFSSC concluded that it was feasible and appropriate to establish a Single Manager for both of these commodity segments without further study. It was noted that certain items having "engineering-essential" or "operational-essential" characteristics, as determined by technical and value judgment, should be coded for retention under individual military service supply management.⁵

Other items which had neither a stated mobilization requirement nor an economical justification for centralized control could be decentralized by the Single Manager who would direct their acquisition from General Services Administration (GSA) Stores Depots and from Federal Supply Schedules on a first priority basis provided GSA agreed to render this support. If GSA did not desire to support such items, the Single Manager could direct procurement through local commercial sources.

Recommendations. -- That the Secretary of the Army be designated Single Manager for General Supplies with the Agency to be located at the Army General Supplies Commodity Center in Richmond; and, that the Secretary of the Navy be designated Single Manager for Hardware and Abrasives with the Agency to be located at the Navy General Stores Supply Office in Philadelphia. Further, that both Single Manager assignments be scheduled to become fully operational on July 1, 1961 which would provide lead time for planning, coding of items, designing systems, and budgeting. The AFSSC Study explained the nomination of the Army and Navy on the basis of possessing systems closely aligned to the commodities being assigned and on the basis of exploiting Single Manager experience and operating "know how."

⁵Ibid., pp. 22-25.

NEW COMMODITY AGENCIES

Assignments by Department of Defense. -- Preliminary memorandum Single Manager assignments were made in November 1959 to the Secretaries of the Army and Navy for Military General Supplies and Military Industrial Supplies respectively. The fully operational effective dates will be in accordance with an approved time-phased schedule to be coordinated with the military departments. Underlying this schedule is the availability of additional resources to finance the additive workload during this transitional period. The new Single Manager assignments cause organizational realignments and additional workloads which have not been provided for in the Fiscal Years 1960 or 1961 budget estimates.⁶

Charter Directives for the new Single Manager assignments will specify capitalization of all wholesale inventories owned by the Single Managers. Financing of retail inventories will be optional with the individual military services.

Other Actions and Guidance. -- Items affected by the new Single Manager assignments which are to be: retained by the military services; placed under the new Single Manager's control; and, decentralized for acquisition from GSA or commercial sources; will be coded in accordance with management techniques and criteria specified in the approved Defense Material Management Program for Fiscal Year 1960. This coding will conform to uniform procedures and schedules.⁷

⁶Assistant Secretary of Defense (Supply and Logistics) Memorandum, "Action on Recommendations, AFSSC Study Project 59-2, Report on the Management of General Supplies," (Washington: December 11, 1959).

⁷Ibid.

A Working Group composed of members of all military services and the Office of the Secretary of Defense will develop plans and proposals for implementing a single integrated material distribution system for all single manager commodities and for uniform operating procedures for all Single Manager agencies. Department of Defense guidance for the Working Group specified that proposals would be developed in accordance with the following:⁸

1. The facilities of all military services will be considered in the development of the integrated distribution system.
2. No attempt will be made to establish a separate system of depots to be used exclusively for the distribution of single manager commodities.

Target dates of August 15 and December 31, 1960 were set for completion of proposals on the integrated distribution system and uniform operating procedures respectively.

⁸Ibid.

CHAPTER VII

SUMMARY AND CONCLUSIONS

SUMMARY

As one alternative to the proposed Fourth Service of Supply, the Department of Defense has undertaken a program of Single Manager. The questions are: To what extent has this alternative been satisfactory? Has it met the objectives of the Congress and the Hoover Commission?

On the asset side of the ledger, supply effectiveness for the Single Manager Agencies compares favorably with service-managed supply systems. Procurement processing time and delinquency rates have been reduced significantly.

Single Managers have undertaken standardization programs for the commodities which they manage and considerable progress in the reduction of items has been achieved. Notwithstanding, any appraisal must consider to what extent are all military items common. Although an exact figure is difficult to determine, it has been estimated by the Department of Defense that only 14% of total items currently supplied are common. The future success of the Single Manager Program will depend upon the ability to increase the degree of commonality.

Economies such as reductions in personnel and storage spaces constitute an estimated annual savings of \$13.2 million. Other measurable one-time savings, achieved primarily by inventory draw-downs, are equivalent to about \$239 million. The greatest potential savings associated with the Single Manager Program, however, are those arising from the elimination of interservice procurement competition, concurrent buying and selling, and the reduction of backhauls and crosshauls through integrated distribution operations. These economies are not precisely measurable.

On the liability side of the ledger is the wartime capability of Single Managers -- seriously impaired by the vulnerability of their depots, the gravity of mobilization reserve deficiencies, the lack of a workable system of applying mission priorities, and the cumbersome funding and accounting procedures. Many raise the question -- what good is it to have a system that works well in peacetime and saves money if it has deficiencies in terms of mobilization readiness and wartime capabilities which render it useless in time of war?

It is true the Single Manager Depot System is seriously vulnerable, but this must be evaluated in perspective. It is no more vulnerable than many of the service-managed depot systems which store items at least as critical to combat as the single manager commodities. Before the Single Manager Program is condemned for vulnerability, the service supply systems must be subjected to the same test. The capability of the military to recuperate and resume military operations following a nuclear attack is not limited by the factor of vulnerability of the Single Manager Depot System. Other factors more likely to limit our

capability would be communications, transportation, and the vulnerability of combat critical supplies in service-managed depot systems.

Another serious deficiency is the shortage in mobilization reserve stocks. Here again, while the Single Manager System is deficient, the service systems are likewise deficient. Nor does the Single Manager System have any monopoly on cumbersome funding and accounting procedures, although there may be a greater degree of complexity because of the interservice nature of single manager operations. This latter area is one where improvement is under way to simplify and standardize procedures.

Correction of the major deficiencies, to a large extent, hinges upon the competition by priority programs for the limited available resources of the defense budget.

CONCLUSIONS

An analysis of Commodity Single Manager performance to date leads to the conclusion that it is effective as compared to supply operations prior to the establishment of this system. Further, that worthwhile savings in storage space, payroll costs, inspection services, and in procurement and distribution operations, have been effected. It is also concluded that Single Manager operations still need simplification, operational refinement, and procedural standardization.

Many of the objections that led to the recommendations of the Fourth Service of Supply appear to have been adequately met through establishment of the Single Manager Program. Thus, it is reasonable to expect that the desires of the Congress and the Hoover Commission will be attained without encountering the multitude of problems associated with the establishment of a Fourth Service of Supply.

One final word should be said about duplicate items in the supply systems of the military departments. There is opinion both within and outside the Department of Defense that effective management of the military inventory is synonymous with elimination of duplications. Regardless of the merits of these opinions concerning the management of common-use categories, the concentration on duplications may have obscured the basic problem of managing a large inventory -- an inventory so large that even complete elimination of the duplication would not appreciably affect the investment. For example, it has been estimated that less than 20% of the annual procurement dollar is spent for these common-use items and that at any given time only about 5% of the dollar value of the inventory is made up of such items. There still remains, then, a multi-billion dollar inventory consisting of more than two million different items that must be managed by the military services. It does not, therefore, hold to establish Single Manager control for each and every item that is discovered to have common usage.

If the last ten years may be characterized as a period of experimentation in adapting business principles and techniques to military supply management, the next ten years should be viewed as a period of consolidation and refinement. Upon the basis of the improvements already made, military supply managers should be able to record increased progress toward their goal of operating the supply systems at the lowest ultimate costs, consistent with maintaining the security of the nation in a troubled world.

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